

CHAPTER 4

VALUATION OF VACANT LAND PRESENT WORTH

CONCEPT OF PRESENT WORTH VALUATION

Assessors are required to consider, and when applicable, to apply the present worth valuation procedure when using the market approach to value vacant land, § 39-1-103(14)(b), C.R.S.

Present worth valuation of vacant land involves discounting. Discounting is defined in The Dictionary of Real Estate Appraisal Fourth Edition, 2002, ~~text~~ published by the Appraisal Institute, as a procedure used to convert periodic income, cash flows and reversions into present value. Present value is based on the assumption that benefits received in the future are worth less than the same benefits received now. The objective is to determine the present worth, i.e., the actual (market) value, as of the appraisal date, of the vacant land, not its future value.

Comment [JMM6]: Grammatical revisions

Discounting of vacant land establishes the present worth of vacant land that will not likely sell within one year. The reason for vacant land present worth valuation is to account for the time, in years, necessary to sell an inventory of vacant lots, sites, parcels, or tracts. According to Colorado law, the present worth valuation of vacant land is synonymous with actual or market value.

Refer to *Definition of Terms* at the end of the section for explanations of terms used.

Throughout the section the terms “subdivider” or “land developer” are used to describe owners of vacant land. The terms are not meant to limit the application of present worth valuation procedures to specific types of land ownership. Vacant land owned by private individuals, who are neither subdividers nor developers, are considered for present worth valuation if the land otherwise qualifies.

The Colorado Supreme Court ruled that the Division’s present worth valuation procedure is an appropriate interpretation of the statutes controlling the valuation of vacant land, El Paso County Board of Equalization v. Craddock, 850 P.2d 702 (Colo. 1993). The concept of raw land value being a market value threshold below which present worth values may not decline was referenced in footnote 4, p. 707, of the case.

The Division developed a seven-step present worth valuation procedure. The objectives of the procedure are to:

- A. Determine the applicability of present worth valuation to the vacant land being valued
- B. Determine appropriate adjusted selling prices, and
- C. Determine the present worth value of vacant land

- a. In situations where mixed use has been approved and lot lines established within a single approved plat, each lot is counted toward the 80 percent sellout threshold regardless of size or use.
- b. Lots or tracts that have legal or physical no-build restrictions should not be included in the original number of lots or tracts when determining the 80 percent sellout thresholds. These lots or tracts are typically never part of the developer's "marketable" inventory, and will never be sold. Such lots or tracts, while never available to the open market or subject to present worth valuation, are valued with consideration given to their no-build restrictions. Lots or tracts which might have legal and/or physical no-build restrictions include the following:
 - i. Open space lots or tracts that are required in a subdivision plan before building permits are issued
 - ii. Greenbelt lots or tracts that are permanently incorporated within a subdivision plan
 - iii. Lots or tracts unbuildable due to city or county building or zoning requirements
 - iv. "Out lots" that are adjacent to buildable lots; but due to their size or access problems, are effectively unbuildable
- c. Only sales or long-term leases of lots to "end users" reduce the vacant land inventory and therefore, count toward the 80 percent sellout thresholds. "End users" are those parties who intend to, are expected to, or have done one of the following:
 - i. Construct improvements on the vacant lots for themselves or have begun construction of improvements, such as speculative homes, for others
 - ii. Purchase improvements constructed by builders for them
 - iii. Use the vacant land in conjunction with other improved property under the same ownership
 - iv. Purchase the vacant land for investment and intend to withhold the land from the open-market for an extended period of time

NOTE: Since sales to "end users" reduce the vacant land inventory, these sales are used for all absorption calculations, including the 80 percent sellout threshold, absorption rate, and absorption period.

Comment [KLH7]: Clarifies the use of these sales for ALL absorption related calculations.

- d. Bulk lot sales to another subdivider or land developer do not count toward the 80 percent sellout threshold. When a land developer legally transfers ownership of vacant lots in an approved subdivision plat to another land developer, there is no change in the percentage of lots or tracts sold, unless the land is resubdivided or replatted and the number of lots within the original subdivision changes.
- e. If a replat or resubdivision occurs and the intent of the original subdivision is substantially altered, as with a change in density or zoning, then two approved plats would exist and the total lot counts, absorption rates, and periods and the 80 percent sellout thresholds are recalculated.
- f. Replats or resubdivisions, which do not substantially alter the intent of the original subdivision, such as a lot line vacation, only require a recalculation of the total number of lots within the original approved plat.